

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

KEYSPAN ENERGY DELIVERY NEW ENGLAND
RESPONSE TO
ATTORNEY GENERAL'S FIRST SET OF INFORMATION REQUESTS

D.T.E. 06-54

Respondent: Nancy G. Culliford

Date: September 12, 2006

Information Request AG-1-9

- Q. Describe the evolution of the negotiations and discussions between the Company and Algonquin regarding the expansion of the Algonquin G-Lateral system. Begin with the initial discussions on the potential need for the expansion and end with the discussions that led to the Precedent Agreement entered into on March 20, 2006. Include details such as who initiated the discussions, the nature of the issues that the Company and Algonquin discussed, and the approximate date that the Company gained a reasonable level of assurance that Algonquin would take steps to expand the Algonquin G-Lateral system.**
- A. KeySpan's discussions with Algonquin Gas transmission Company ("Algonquin") regarding potential upgrades to the G Lateral have been ongoing for several years, commencing shortly after KeySpan's acquisition of Eastern Enterprises and the Cape Cod service area formerly served by Colonial Gas Company. The G Lateral serves several high-growth areas at the tip end of the Algonquin system in southeastern Massachusetts and Rhode Island, and therefore, there have existed long-recognized constraints in the amount of capacity available to LDCs and end-use customers served by that system. Given the relatively high level of growth occurring on Cape Cod and the fact that the only interstate pipeline currently able to serve Cape Cod is the G Lateral, the Company and Algonquin work in close coordination and, since the KeySpan acquisition, have periodically evaluated the options available to maintain reliable service to Cape Cod.

In relation to the specific issue of the most recent proposal to extend the G Lateral serving the Cape Cod system, KeySpan first approached Algonquin in 2004 to determine whether, in the context of other regional considerations, there was any opportunity to secure additional pipeline capacity on the G Lateral serving the Cape Cod service area. In response to the Company's inquiries, Algonquin indicated an interest in addressing KeySpan's needs in conjunction with other activities and arrangements that it was undertaking in southeastern Massachusetts.

To that end, Duke Energy (Algonquin's parent company) conducted a "non-binding open season" beginning in September 2004 to assess the needs of its customers on the G Lateral for incremental capacity. A non-binding open season is designed to provide an indication of capacity needs and does not generally result in the awarding of capacity. Thus, KeySpan's initial foray with Algonquin came as a result of participation in the open season with KeySpan submitting a non-binding bid for incremental capacity. Following the open season, KeySpan and Algonquin commenced discussions regarding the nature and extent of the need in the Cape Cod service area. These discussions focused on:

- (1) *The magnitude of the need in the Cape Cod service area* and whether meeting that need would require the extension of Algonquin's G-Lateral system to transport gas to an optimal point on the Company's distribution system.
- (2) *Alternatives for crossing the canal to serve the Cape Cod need.* Currently, there are two crossings serving the KeySpan system, which route from the Bourne and Sagamore bridges. A third crossing is owned (and not fully utilized) by Mirant, which is currently in federal bankruptcy proceedings. Both KeySpan and Algonquin recognized that there would be a benefit in utilizing the existing infrastructure in crossing the canal. Both Algonquin and KeySpan viewed construction of a fourth canal crossing to be a costly undertaking with significant permitting challenges and potential environmental impacts. However, in light of the ongoing bankruptcy proceeding, Duke Energy was in a far stronger position to enter into an arrangement with Mirant for access to the canal crossing. Among other things, Duke Energy was already participating in the bankruptcy proceeding and was engaged in the process of sorting out several arrangements it had with Mirant throughout the region.
- (3) *Identification of the optimal location for Algonquin to tie its facilities into the KeySpan distribution system.* Assuming that Algonquin would gain control of the canal crossing as a result of its arrangements with Mirant, Algonquin would be in a position to extend its interstate pipeline facilities to meet up with the Cape Cod distribution system. It will be necessary to construct a new take station to accomplish this interconnection. Therefore, KeySpan and Algonquin discussed the alternatives for siting the take station. This discussion resulted in identification of the Route 130 site.

By January 2005, KeySpan and Algonquin came to a consensus that an arrangement could be put together to expand the G Lateral and to enter into a long-term supply agreement to serve the Cape Cod system. Accordingly, efforts by KeySpan and Algonquin followed to bring the overall project to fruition, with the Precedent Agreement under review in this proceeding representing the final

step in the process.

There are several KeySpan personnel that have been involved in discussions with Algonquin since the issues under discussion include engineering, planning, gas supply, construction and regulatory issues.